



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS

Internal Audit Section



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June 1, 2011

Richard R. Frank, Director of Personnel
Department of Personnel
1114 Market St., Room 700
St. Louis, MO 63101

RE: Employee Benefits Section (Project #2011-08)

Dear Mr. Frank:

Enclosed is the Internal Audit Section's report on the process review of the Employee Benefits Section for the period July 1, 2009 through June 30, 2010. A description of the scope of our work is included into this report.

Fieldwork was completed on April 26, 2011. Management's response to the observation and recommendations noted in this report were received on May 27, 2011, and have been incorporated in the report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section at (314) 622-4723.

Respectfully,

Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Enclosure

cc: Karen Toal, Employee Benefits Manager – Department of Personnel



CITY OF ST. LOUIS

DEPARTMENT OF PERSONNEL

EMPLOYEE BENEFITS SECTION

PROCESS REVIEW

JULY 1, 2009 THROUGH JUNE 30, 2010

PROJECT #2011-08

DATE ISSUED: JUNE 1, 2011

**Prepared By:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
DEPARTMENT OF PERSONNEL
EMPLOYEE BENEFITS SECTION
PROCESS REVIEW
JULY 1, 2009 THROUGH JUNE 30, 2010**

EXECUTIVE SUMMARY

Purpose

The Internal Audit Section (IAS) has completed a process review of the Employee Benefits Section for the period July 1, 2009 through June 30, 2010. The purpose was to determine if the Employee Benefits Section effectively and efficiently manages risks to ensure:

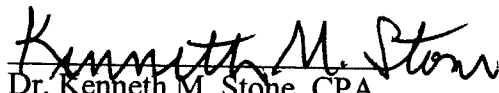
- Accomplishment of established objectives and goals
- Compliance with applicable laws, regulations, policies and procedures
- Safeguarding of assets
- Reliability and integrity of financial and operational information
- Economic and efficient use of resources

Conclusion

The opportunity exists for management to improve internal controls over the financial and operational activities of the Employee Benefits Section. The following is an observation resulting from the review:

- Lack of policies and procedures for reconciling financial records

This observation is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.


Dr. Kenneth M. Stone, CPA
Internal Audit Executive


Date

**CITY OF ST. LOUIS
DEPARTMENT OF PERSONNEL
EMPLOYEE BENEFITS SECTION
PROCESS REVIEW
JULY 1, 2009 THROUGH JUNE 30, 2010**

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INTRODUCTION

Background

Chapter 4.10.220 of the City Code (revised 1998) authorizes the City to establish contracts or otherwise plans for life, health, medical disability, and other coverage deemed necessary for civil service employees. This chapter also states that the Director of Personnel shall develop and administer the programs and confer with the Board of Estimate and Apportionment each year regarding the plan and the appropriate funding level. The Director shall also certify the funding level and remittance rates to the Comptroller and Budget Division each year and no officer or employee shall alter or amend such rates.

The Employee Benefits Section (EBS) was established to participate in the development and to carry out the administration of the City's employee benefit programs.

Purpose

The purpose was to determine if the Employee Benefits Section effectively and efficiently manages risks to ensure:

- Accomplishment of established objectives and goals
- Compliance with applicable laws, regulations, policies and procedures
- Safeguarding of assets
- Reliability and integrity of financial and operational information
- Economic and efficient use of resources

Scope and Methodology

The review was confined to evaluating internal controls over the financial and operational activities of the Employee Benefits Section. The audit procedures included inquiries of management and staff and reviews for compliance with policies and procedures, as well as applicable laws and regulations. Limited tests of controls, follow-ups on prior audit observations, and other procedures considered necessary were performed.

Exit Conference

Management was offered the opportunity for an exit conference on May 24, 2011; however, management declined.

Management's Responses

Management's response to the observation and recommendations noted in this report was received on May 27, 2011. The response has been incorporated into this report.

OBSERVATIONS

Status of Prior Observations

The Internal Audit Section (IAS) followed up on an observation included in the report issued February 19, 2010. The status of this observation is as follows:

Employee Wellness Program (**Resolved**)

Summary of Current Observations

We noted several control strengths in the operations of the Employee Benefits Section (EBS). These included, but were not limited to the following:

- Source information is verified before entering employee benefit or payroll deduction changes.
- Premium payment amounts due are routinely reconciled to the applicable funds available.
- Vendor payment vouchers and supporting data are independently reviewed before approval for payment.
- Written job descriptions exist for all employees.

The opportunity exists for management to improve internal controls over the financial and operational activities of the EBS. The following is an observation resulting from the review:

- Lack of policies and procedures for reconciling financial record

This observation is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

Lack Of Policies And Procedures For Reconciling Financial Records

Inquiries were made to determine whether controls were adequate to ensure EBS' financial records were accurate and reliable. IAS noted that reconciliations of ledger accounts were performed monthly; however, IAS found that:

- Manual worksheets used to document the reconciliations did not contain explanations of the purpose or the sources (City's general ledger versus department's ledger) of the entry amounts.
- Account numbers used during the reconciliation were not documented.
- The description of the reconciling amounts was not documented.
- Reconciling amounts as of July 2009 were not corrected or resolved as of this report.
- Periodic independent reviews of the monthly reconciliations were not performed and/or documented.

Sound management practices require that internal controls are established to ensure the reliability and integrity of the financial records. The controls should include the establishment of written policies and procedures and the required format for the reconciliation. The policies and procedures should be approved by management and should require that each account reconciliation include, at a minimum, the following:

- Account, center and fund numbers
- Source of the account's beginning and ending balances
- Description and resolution of the reconciling items
- Preparer's initials and date performed
- Periodic independent reviews

In addition, the written procedures should provide a basis for training and cross-training of new and current employees. Written policies and procedures also provide a basis for the development of performance standards and measures. Upon inquiry, IAS learned that management relied upon the experience of the accountant to perform the reconciliation, therefore written procedures were not established and management or independent reviews were not performed.

The lack of written policies and procedures increases the risk that control procedures: will not be performed; may be over-ridden; and employees will not be adequately trained. The risk also exists that erroneous account balances may not be promptly and properly corrected, and balances cannot be relied upon. As a result, the reconciliations were not readily understandable without a verbal explanation from the preparer. Therefore, the potential usefulness as an information source was limited and management had little assurance that account balances were accurate and reliable.

Recommendation

IAS recommends that management develop written policies and procedures for the reconciliation process. The policies and procedures should include adequate controls to ensure account balances are accurately stated and should also be:

- Approved by management and dated
- Formally communicated to the appropriate staff and documented
- Periodically reviewed and updated

Management's Response

A meeting will be held with the proper person(s) to discuss and develop policies and procedures for the reconciliation process. It is expected it will take a couple of months, based on scheduling, to develop and finalize. IAS will be provided with a copy of the procedures when completed.